

Rating Rationale
Sanima Mai Hydropower Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	2,300.10	CARE-NP BBB+ [Triple B Plus]	Assigned
Short Term Bank Facilities	171.05	CARE-NP A3+ [A Three Plus]	Assigned
Total Facilities	2,471.15		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BBB+’ to the long-term bank facilities and ‘CARE-NP A3+’ to the short-term bank facilities of Sanima Mai Hydropower Limited (SMHL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of SMHL derives strength from experienced promoters, directors and management team, association with the large group having multiple hydropower projects and strong financial risk profile with comfortable gearing levels. The ratings also factor in power purchase agreement with sufficient period coverage, moderate counter party risk, current project operated at moderate PLF, power demand supply gap in Nepal coupled with increasing demand of power in the country and government support for the power sector. The ratings, however, are constrained by project implementation and stabilization risk of investee companies and SMHL's exposure to regulatory risk. The rating is also constrained by SMHL's exposure to volatile interest rates, hydrology risk associated with run of the river power generation. The ability of SMHL to reduce the gap between operational PLF and contracted PLF and availability of sufficient hydrology and timely receipt of the payments from NEA are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Board members and management having experience in hydro power sector

SMHL is managed under the overall guidance of the company's Board of Directors (BoD), who possesses wide experience in the power sector. SMHL has 7 Board of directors, chaired by Mr. Tek Raj Niraula, having more than 15 years of experience in hydropower, hotel and banking industry. The management team of the company is led by Mr. Grishma Ojha, General Manager, has more than 10 years of experience in hydropower sector and is supported by other experienced management team members.

Association with the large group having multiple hydropower projects

SMHL is part of Sanima Hydro Group which is promoted by group of Non-Resident Nepalese who are related to Sanima Group having business interests in Hydropower, Banking and insurance sector. Sanima

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

Hydro has been developing a number of hydropower projects by setting up Special Purpose Vehicle (SPV) companies in Nepal.

Strong financial risk profile with comfortable gearing levels

SMHL reported total income of Rs. 778 Mn during FY19 reporting a decline of ~11% over FY18 majorly due to the decrease in revenue through sale of electricity on account of less electricity generation. However, SMHL reported improvement in PBILDT margin with margin of 88.52% during FY19 due to decrease in direct overheads. With decline in PBILDT in absolute amount, the PAT of the company declined by 17% to Rs.231 in FY19 over FY18.

During 9MFY20, the total income of company increased by 6% to Rs. 682 Mn over 9MFY19, due to increase in revenue from the sale of power on back the of better hydrology. SMHL reported PBILDT of Rs. 615 Mn and PAT of Rs. 312 reporting improvement over 9MFY20.

Overall gearing ratio improved to 0.87x at the end of FY19 from 1.00x at the end of FY18 on the back of repayment of term loan coupled with the increase in networth due to accretion of profit to net worth. Total debt to Gross Cash Accrual (GCA) ratio increased to 6.41x during FY19 (FY18: 6.35x) due to decline in gross cash accruals as a result of decline in PAT. The total gearing ratio was 0.73x and the total debt to GCA ratio was 5.38x as on Mid-April 2020.

Power purchase agreement with sufficient period coverage

SMHL had entered into PPA with Nepal Electricity Authority (NEA) for 15.6 MW as on April 21, 2010 (one amendment thereafter on March 21, 2012 for additional 6.4 MW) for sale of entire power generated by Mai Hydropower Project (MHP) and another agreement on January 25, 2013 for sale of entire power generated by the plant Mai Cascade Hydropower Project (MHCP). The PPA is signed for a period of 30 years for MHP and MCHP from the date of COD or till validity of Generation License whichever is earlier. Under the Government's initiative of promoting private sector hydropower developers, with regard to MHP, the project has been availing promotional tariff rates of NPR 4.80 and NPR 8.40 per unit in wet and dry seasons for 15.6 MW; which shall remain effective for 7 years after COD with 5 times annual escalation of 3% on base tariff (available till Mid-April 2022).

Current project operated at moderate PLF

The annual contracted PLF for MHP is 66.57% and for MHCP is 62.66% of the installed capacity of the plant. The project has been operated at moderate PLF over the period. During FY19, the PLF from the project was at 50.70% (over generation capacity) which was increased to 54.73% during 10MFY20. The power generation from the project as a %age to the contracted power as per the PPA was 77.27% during FY19 and 90.61% in 10MFY20. The total energy generated from the project was lower than contracted energy on annual basis during FY19 majorly due to hydrology issues. The ability of the company to reduce the gap between operational PLF and contracted PLF and availability of sufficient hydrology is the key rating sensitivity.

Moderate counter party risk

SMHL is exposed to counter party payment risk pertaining to Nepal Electricity Authority (NEA), which has been making consecutive losses in past till FY16 and carry huge accumulated loss in its book. However, as per the annual report published by NEA, during FY19 (provisional), NEA earned profit of Rs 7,205 Mn. Further, during FY19, NEA achieved gross cash accrual of Rs 11,915 Mn. The counter party payment risk is moderated by the fact that, NEA is fully owned by government of Nepal, net loss is declining over the period and generating positive gross cash accruals. Further, NEA has been making timely payment to independent power producers (IPPs) in past.

During 9MFY20, the company has received payment from NEA for supply of power generated within 43 to 50 days. However, claims made against promotional tariff rates are paid by NEA after approval from Government of Nepal (GoN) which has been delayed by NEA due to delay in approval from GoN.

Power demand & supply gap coupled with increasing demand of power in the country

As per the NEA's Annual Report for FY19, the current peak electricity demand is 1,320 MW. The total domestic installed capacity stands at 1,178 MW which includes 617 MW owned by NEA and 561 MW by private sector IPPs. Overall, during FY19, total energy demand was 7,584 GWh which was met by import of 2,813 GWh from India whereas balance was met by domestic generation. As per NEA, electricity demand is in increasing trend and is expected to increase in future with increase in electricity consumption through the promotion of electric vehicles by building charging station and replacing cooking gas with electricity, increase in access of population using electricity (78% in FY19) etc.

Government support for the power sector

Government of Nepal (GoN) considers hydropower generation as priority sector and intends to maximize private sector participation in generation of hydroelectricity by offering different exemptions and facilities. GoN has announced full tax exemption for first 10 years and 50% tax exemption for next 5 years for such person/entity who starts commercial operation, transmission and distribution of electricity up to mid-April 2024. Furthermore, GoN has declared to provide grant of amount equivalent to Rs. 5 Mn per MW installed capacity after receiving evidence of formal COD of complete power plant.

Key Rating Weaknesses***Project implementation and stabilization risk of Investee companies***

SMHL has invested in multiple hydropower companies of Sanima Group. Company has investments in under construction projects like Swet Ganga Hydropower & Construction Ltd [CARE-NP BB], Sanima Middle Tamor Hydropower Ltd [CARE-NP BB], Mathillo Mailun Khola Jalavidyut Ltd [CARE-NP BB-] and Tamor Sanima Energy Pvt Ltd. SMHL also has investment in a construction company. Total investment of SMHL in these companies is Rs. 1,173 Mn as on Mid-April 2020. Company had issued rights shares of Rs. 1,055 Mn during FY18 to invest in above mentioned hydropower projects of Sanima

Group. SMHL's income from investment will depend upon the timely completion of the projects within the cost estimates and satisfactory performance of the investee companies. All investee hydropower projects are under construction; hence such projects are exposed to execution and stabilization risk associated with the project. Also, the construction activities of the projects have been affected due to the lockdown due to COVID 19 pandemic.

Exposure to volatile interest rate

Nepalese banking sectors are fixing interest rate on lending by adding certain percentage of premium on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Base rate of the Bank and Financial Institutions will be change by change in liquidity position which lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 1-2 year. Therefore, funding from Bank and Financial Institutions is subject to volatile interest rate.

Hydrology risk associated with run-of-the-river power generation

Run-of-the-river power is considered an unsteady source of power, as a run-of-the-river project has little or no capacity for water storage and therefore is dependent on the flow of river water for power generation. It, thus, generates much more power during wet season when river flows are high (Mid-April to Mid-December) and less during the dry season (Mid-December to Mid-April). MHP and MHCP utilizes discharge from Mai Khola having catchment area of 589sq. kms based on Perennial River. Hence, the project is exposed to risk associated with variation in discharge of water from the aforesaid river/ Khola.

About the Company

SMHL is a public limited company, incorporated in September 11, 2008 as a private limited company and later converted to public limited company in March 16, 2012. It is promoted by institutional investors majorly related to Sanima Hydro Group and individual promoters having long experience in the hydropower and other sectors for setting up 22 MW Mai Hydropower Project (MHP) and 7 MW Mai Cascade Hydropower Project (MHCP). The major shareholder of the company as on January 02, 2020 are Sanima Hydropower Ltd (8.40%), Jai Ganesh Investment Company Pvt Ltd (6.46%) and Mr. Upendra Mahato (6.11%). The projects are constructed under BOOT (Build, own, Operate and Transfer) mechanism. As per the Generation License, from Government of Nepal – Ministry of Energy, obtained on September 13, 2010 and July 17, 2020 for MHP in case of 15.6 MW and 6.4 MW and November 05, 2012 for MHCP, the project shall be handed, on whatever conditions the project is, to the Government of Nepal after expiry of Generation License, which is 35 years respectively.

Brief Financial Performance during last 3 years and 9MFY20 is as follows:

(Rs in Mn)

Particulars	FY17 (A)	FY18 (A)	FY19(A)	9MFY20 (UA)
Income from Operations	805	873	778	682
PBILDT	710	764	688	498
PAT	279	278	231	312
Overall Gearing (times)	1.92	1.00	0.87	0.74
Interest coverage (times)	2.68	2.50	2.47	2.69

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Annexure 1: Details of the Facilities rated

Facility/ Instrument	Type of the Facility	Amount (Rs. In Million)	Rating
Long Term Bank Facilities	Term Loan	2,300.10	CARE-NP BBB+
Short Term Bank Facilities	Fund Based Limits	120.00	CARE-NP A3+
Short Term Bank Facilities	Non Fund Based Limits	51.05	CARE-NP A3+
Total Facilities		2,471.15	